

PASSAIC REDEVELOPMENT AGENCY

(A component unit of the City of Passaic)

REPORT OF AUDIT

FOR THE YEARS ENDED

JUNE 30, 2014 AND 2013

PASSAIC REDEVELOPMENT AGENCY

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-2
	Management's Discussion and Analysis (MD&A)	3-5
 <u>Basic Financial Statements</u>		
A	Comparative Statements of Net Position as of June 30, 2014 and 2013	6
B	Comparative Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30, 2014 and 2013	7
C	Comparative Statements of Cash Flows for the Years Ended June 30, 2014 and 2013	8
	Notes to the Financial Statements	9-15
 <u>Supplementary Schedule</u>		
1	Schedule of Revenues and Expenses Compared to Budget for the Year Ended June 30, 2014 – Budgetary Basis	16
 <u>Government Auditing Standards</u>		
	Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	17-18
 <u>Roster of Officials as of June 30, 2014</u>		
		19
 <u>Comments/Recommendations</u>		
		20
 <u>Appreciation</u>		
		20



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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Board of Commissioners
Passaic Redevelopment Agency
Passaic, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Passaic Redevelopment Agency, a component unit of the City of Passaic, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Passaic Redevelopment Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Passaic Redevelopment Agency as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Passaic Redevelopment Agency's basic financial statements as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2014 on our consideration of the Passaic Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Passaic Redevelopment Agency's internal control over financial reporting and compliance.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants

Fair Lawn, New Jersey
December 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of the Passaic Redevelopment Agency's ("Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on June 30, 2014. Please read it in conjunction with the Agency's basic financial statements and accompanying notes.

The purpose of the Agency is to carryout the redevelopment plans of the City of Passaic.

FINANCIAL HIGHLIGHTS

- The Agency's assets exceeded its liabilities at June 30, 2014 by \$83,549.
- The Agency's total assets decreased by \$19,490 (11%).
- Operating revenues decreased by \$36,668 (69%).
- Operating expenses increased by \$5,181 (12%).
- Operating income decreased by \$41,849 (494%).

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Agency is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Enterprise fund financial statements offer short- and long-term financial information about the activities and operations of the Agency. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner.

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets – The following is a summary of the Agency's financial position as of June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 161,164	\$ 180,654	\$ 154,357
Total Assets	<u>161,164</u>	<u>180,654</u>	<u>154,357</u>
Current Liabilities	<u>77,615</u>	<u>64,172</u>	<u>46,749</u>
Total Liabilities	<u>77,615</u>	<u>64,172</u>	<u>46,749</u>
Net Position:			
Unrestricted	<u>83,549</u>	<u>116,482</u>	<u>107,608</u>
Total Net Position	<u>\$ 83,549</u>	<u>\$ 116,482</u>	<u>\$ 107,608</u>

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014
(Continued)**

FINANCIAL ANALYSIS OF THE AGENCY (Continued)

The Agency's Net Position decreased \$32,933, or 28% in 2014. The majority of this decrease is due to anticipated utilization of unrestricted net position in 2014 to balance the budget.

Operating Activities – The following table summarizes the revenues, expenses and changes in net position for the fiscal years ended June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Redevelopers' Fees and Contributions	\$ 6,472	\$ 43,140	\$ 1,520
Intergovernmental Contributions	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total Operating Revenues	<u>16,472</u>	<u>53,140</u>	<u>1,520</u>
OPERATING EXPENSES			
Administration	45,381	41,532	38,691
Cost of Providing Services	<u>4,472</u>	<u>3,140</u>	<u>253</u>
Total Operating Expenses	<u>49,853</u>	<u>44,672</u>	<u>38,944</u>
OPERATING INCOME	(33,381)	8,468	(37,424)
NON-OPERATING REVENUES			
Interest Income	<u>448</u>	<u>406</u>	<u>1,719</u>
CHANGE IN NET POSITION	(32,933)	8,874	(35,705)
NET POSITION, BEGINNING OF YEAR	<u>116,482</u>	<u>107,608</u>	<u>143,313</u>
NET POSITION, END OF YEAR	<u>\$ 83,549</u>	<u>\$ 116,482</u>	<u>\$ 107,608</u>

Operating Revenues decreased \$36,668 or 69% in 2014 mainly as a result of a decrease in amounts received from Redeveloper Fees and Contributions.

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014
(Continued)**

FINANCIAL ANALYSIS OF THE AGENCY (Continued)

Operating Expenses increased \$5,181 or 12% in 2014 mainly as a result of increased expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency had no capital assets at June 30, 2014, 2013 and 2012.

Capital Debt

The Agency had no capital debt at June 30, 2014, 2013 and 2012.

OTHER FINANCIAL INFORMATION

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency has committed itself to financial excellence. Its system for financial planning, budgeting, and internal financial controls is audited annually and it plans to continue to manage its finances in order to meet the many challenges ahead.

The budget for the fiscal year ended June 30, 2015 was approved by the Division of Local Government Services and adopted by the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of Passaic, New Jersey citizens and redevelopers with a general overview of the Agency's finances to demonstrate the Passaic Redevelopment Agency's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the office of the Executive Director at 330 Passaic Street, Passaic, New Jersey 07055.

BASIC FINANCIAL STATEMENTS

**PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Unrestricted Current Assets:		
Cash	\$ 158,601	\$ 148,092
Contract Receivable - Due from Developer	<u>-</u>	<u>30,000</u>
Total Unrestricted Current Assets	<u>158,601</u>	<u>178,092</u>
Restricted Current Assets:		
Cash	<u>2,563</u>	<u>2,562</u>
Total Restricted Current Assets	<u>2,563</u>	<u>2,562</u>
Total Assets	<u>161,164</u>	<u>180,654</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	14,184	6,270
Escrow Deposits Payable	<u>60,868</u>	<u>55,340</u>
Total Current Liabilities (Payable from Unrestricted Assets)	<u>75,052</u>	<u>61,610</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow Deposits Payable	<u>2,563</u>	<u>2,562</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>2,563</u>	<u>2,562</u>
Total Current Liabilities	<u>77,615</u>	<u>64,172</u>
NET POSITION		
Unrestricted	<u>83,549</u>	<u>116,482</u>
Total Net Position	<u>\$ 83,549</u>	<u>\$ 116,482</u>

PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Redevelopers Fees and Contributions	\$ 6,472	\$ 43,140
Municipal Contribution	<u>10,000</u>	<u>10,000</u>
Total Operating Revenues	<u>16,472</u>	<u>53,140</u>
OPERATING EXPENSES		
Administration		
Salaries and Wages	37,349	32,446
Other Expenses	<u>8,032</u>	<u>9,086</u>
Total Administration Expenses	<u>45,381</u>	<u>41,532</u>
Cost of Providing Services		
Other Expenses	<u>4,472</u>	<u>3,140</u>
Total Cost of Providing Services	<u>4,472</u>	<u>3,140</u>
Total Operating Expenses	<u>49,853</u>	<u>44,672</u>
OPERATING INCOME (LOSS)	<u>(33,381)</u>	<u>8,468</u>
NON-OPERATING REVENUES		
Interest Revenue	<u>448</u>	<u>406</u>
Total Non-Operating Revenue	<u>448</u>	<u>406</u>
CHANGE IN NET POSITION	(32,933)	8,874
Total Net Position, Beginning of Year	<u>116,482</u>	<u>107,608</u>
Total Net Position, End of Year	<u>\$ 83,549</u>	<u>\$ 116,482</u>

The Notes to the Financial Statements are an Integral Part of this Statement

**PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Redevelopers	\$ 42,000	\$ 30,000
Cash Received from City Contribution	10,000	10,000
Cash Paid to Suppliers for Goods and Services	(4,590)	(11,673)
Cash Paid to Employees	<u>(37,349)</u>	<u>(32,446)</u>
Net Cash Provided by (Used for) Operating Activities	<u>10,061</u>	<u>(4,119)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest Received from Escrow Deposits	<u>1</u>	<u>10</u>
Net Cash Provided by Noncapital Financing Activities	<u>1</u>	<u>10</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>448</u>	<u>406</u>
Net Cash Provided by Investment Activities	<u>448</u>	<u>406</u>
Net Increase (Decrease) in Cash	10,510	(3,703)
Cash, Beginning of Year	<u>150,654</u>	<u>154,357</u>
Cash, End of Year	<u>\$ 161,164</u>	<u>\$ 150,654</u>
ANALYSIS OF BALANCE AT JUNE 30, 2014		
Unrestricted - Cash	\$ 158,601	\$ 148,092
Restricted - Cash	<u>2,563</u>	<u>2,562</u>
	<u>\$ 161,164</u>	<u>\$ 150,654</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (33,381)	\$ 8,468
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
(Increase)/Decrease in Contract Receivable	30,000	(30,000)
Increase/(Decrease) in Accounts Payable	7,914	553
Increase/(Decrease) in Escrow Deposits Payable	<u>5,528</u>	<u>16,860</u>
Total Adjustments	<u>43,442</u>	<u>(12,587)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,061</u>	<u>\$ (4,119)</u>

The Notes to the Financial Statements are an Integral Part of this Statement

NOTES TO THE FINANCIAL STATEMENTS

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity and Activities

The Passaic Redevelopment Agency (the "Agency") is a public body corporate and politic of the State of New Jersey. The Agency was created by municipal ordinance on June 3, 2002 pursuant to the provisions of N.J.S.A. 40A:12A-1, et seq., for the purpose of carrying out the redevelopment plans for the City of Passaic. The Agency is empowered to exercise public and essential government functions, including acquisition, condemnation, clearance, renovation and redevelopment of property in designated blighted areas and to carry out redevelopment plans for the City of Passaic.

The Agency is governed by a Board of Commissioners (the "Board") consisting of seven members, who are appointed by the Mayor with the advice and consent of the City Council. The Board of Commissioners determines policy actions, approves resolutions and selects an executive director to be responsible for the overall operation of the Agency.

The Passaic Redevelopment Agency includes in its financial statements the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. There were no component units with a positive response to any of these reporting criteria. Furthermore, the Agency would be includable as a component unit of the City of Passaic on the basis of such criteria.

On August 5, 1992, the Legislature of the State of New Jersey adopted the Local Redevelopment and Housing Law (N.J.S.A. 40A:12A-1 et. seq.) which became effective on a retroactive basis to January 1, 1992. This law requires all redevelopment agencies to be subject to the provisions of the "Local Authorities Fiscal Control Law". As a result of this legislation, the Passaic Redevelopment Agency is subject to the laws, rules and regulations promulgated for Authorities in the State of New Jersey and must report to the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

The Passaic Redevelopment Agency includes in its financial statements the primary government and those component units for which the primary government is financially accountable. Component units are legally separate organizations for which the Agency is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Agency is financially accountable for an organization if the Agency appoints a voting majority of the organization's board, and (1) the Agency is able to significantly influence the programs or services performed or provided by the organization; or (2) the Agency is legally entitled to or can otherwise access the organization's resources; the Agency is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization, or the Agency is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Agency in that the Agency approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Agency has no component units. The Agency would be includable as a component unit of the City of Passaic on the basis of such criteria.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Agency are organized and operated on the basis of funds. The agency maintains an Enterprise Fund to account for its operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal and contractual provisions. A description of the Agency's fund type it maintains to account for its financial transactions is as follows:

PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Proprietary Fund Types – This fund type accounts for operations that are organized to be self-supporting and includes Enterprise Funds. An enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the entity has decided that the periodic determination of revenues earned, costs incurred and/or net income is appropriate for management accountability purposes.

The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with these operations are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow FASB guidance issued subsequent to December 1, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. The Agency considers transactions pertaining to property held for redevelopment to be operating revenues and expenses since these transactions are connected with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. **Use of Estimates** – The preparation of financial statements requires management of the Agency to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of accrued revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
2. **Reclassifications** – Certain reclassifications have been made to the June 30, 2013 balances to confirm to the June 30, 2014 presentation.

C. Assets, Liabilities and Net Position

1. **Cash, Cash Equivalents and Investments** – The Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are stated at fair value and are limited by N.J.S.A. 40A:5-15.1.
2. **Restricted Assets** – Certain assets are classified restricted because they are maintained in separate bank accounts and their use is limited as the result of certain agreements entered into between the Agency and third parties.
3. **Capital Assets** – Property held for redevelopment is recorded at cost or, if donated or contributed, is stated at the estimated fair market value on the date of receipt by the Agency. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are expensed.

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Position (Continued)

4. **Net Position** – In the statement of net position, there is one class of net position:

- **Unrestricted Net Position** – any portion of net position not already classified as either net investment in capital assets or net position – restricted is classified as net position – unrestricted.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Information

The Agency annually prepares an operating budget. The budget is prepared in accordance with the Budget Manual for Local Public Authorities as promulgated by the Division of Local Government Services, which differs in certain respects from accounting principles generally accepted in the United States of America. The budgets serve as a plan for expenses and the proposed means for financing them. Unexpended appropriations lapse at year end.

The annual budget is approved at least sixty days prior to the beginning of the fiscal year. The budgets must be approved by the Board and submitted to the Division of Local Government Services, Bureau of Authority regulation for approval prior to adoption. Budget adoptions and amendments are recorded in the Agency's minutes.

Six Year Capital budgets are also prepared. Included within the budget are individual projects along with their estimated cost, completion date and source of funding.

The encumbrance method of accounting is utilized by the Agency for budgetary purposes. Under this method purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve a portion of the applicable budget appropriation.

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either cancelled or are included as reappropriations of fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and reappropriations.

An annual operating budget is prepared and adopted each fiscal year by the Agency. The budget is prepared in accordance with the Budget Manual for Local Authorities as promulgated by the Division of Local Government Services which differs in certain respects from accounting principles generally accepted in the United States of America. The Agency may at their discretion modify the budget subsequent to adoption. The legal level of budget control is defined in the Agency as the current budget plus other available funds. Unencumbered appropriations lapse at year-end.

B. Revenue Recognition

City budget appropriations are recognized as operating revenue when they become available as appropriations in the City's budget. Grants received are recognized as revenue when the resources are expended for the purpose specified in the grant agreement. Grant funds received and the related program income not yet expended are reported as unearned revenue.

**PASSAIC REDEVELOPMENT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits – The Agency's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Agency is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protect Act requires all banks doing business in the State of New Jersey to pledge plus collateral equal to 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of 75% of its capital funds for all deposits not covered by the FDIC.

Bank balances for interest bearing accounts are insured up to \$250,000 in the aggregate by the FDIC for each bank. SPIC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At June 30, 2014 and 2013, the book value of the Agency's deposits were \$161,164 and \$150,654, respectively, and the bank balance of the Agency's cash and deposits amounted to \$161,164 and \$181,216, respectively.

The Agency's deposits which are displayed on the balance sheet as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2014</u>	<u>2013</u>
Insured		
Unrestricted	\$158,601	\$178,654
Restricted	<u>2,563</u>	<u>2,562</u>
	<u>\$161,164</u>	<u>\$181,216</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Agency does not have a formal policy for custodial credit risk.

Investments – The Agency is permitted to invest unrestricted operating funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Agency or bonds or other obligations of the school districts which are part of the Agency or school districts located within the Agency, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with N.J.S.A. 40A:5-15.1 (8a-8e). As of June 30, 2014 and 2013 the Agency has no outstanding investments.

NOTE 4 CAPITAL ASSETS

The Agency had no capital assets activity for the years ended June 30, 2014 and 2013.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the cost-sharing contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees. Employees of the Passaic Redevelopment Agency who are eligible for pension coverage are enrolled in the Public Employees Retirement System (PERS).

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees' Retirement System (PERS) – Established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. PERS is a cost sharing multi-employer defined benefit pension plan.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement system (retirement system) covering certain state and local government employees which include those employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected, certain appointed officials and certain Board employees not eligible to be enrolled in the PERS. Effective July 1, 2007, membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The State or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the system, but is currently suspended as a result of reform legislation.

According to state law, all obligations of the retirement system will be assumed by the State of New Jersey should the retirement system be terminated

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of above system. The financial reports may be accessed via the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the various pension Funds administered by the State of New Jersey are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the Funds. Benefits or refunds are recognized when due and payable in accordance with the applicable eligibility terms of the funds.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Investment Valuation (Continued)

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operates and to the benefit provisions of the system.

This new legislation's provisions impacting employee pension and health benefits include:

- For new members of PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- It increased the PERS active member contribution rates 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years for members hired or reappointed on or after June 28, 2011. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

Funding Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS, is 64.5 percent with an unfunded actuarial accrued liability of \$47.2 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 56.7 percent and \$34.4 billion, and the aggregate funded ratio and unfunded accrued liability for local systems including PERS is 76.1 percent and \$12.8 billion.

The funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Actuarial Methods and Assumptions

In the July 1, 2012 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included: (a) an investment rate of return for the retirement systems from 7.95 percent to 7.90 percent; and (b) projected salary increases of 4.22% for the PERS.

Employer and Employee Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 6.6% for PERS, and 5.5% for DCRP of employees' annual compensation.

For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals the annual required contribution in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended June 30, 2014 and 2013, the Agency employees were enrolled in the City's PERS pension plan. Therefore, the Agency was not required to directly contribute for normal cost pension contributions.

Post-Retirement Medical Benefits

The Agency currently does not provide employer paid post-retirement medical benefits to its active or retired employees.

NOTE 6 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to general liability, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is included in the City of Passaic's insurance policy to guard against these events which are intended to provide minimum exposure to the Agency should they occur.

On January 22, 2005, the Agency approved a resolution to indemnify, hold harmless, and defend its employees, officers, commissioners, board members and others from lawsuits, actions and claims asserted against them based on their official actions taken in the course of their duties with the Agency. As of June 30, 2014 and 2013, there have been no claims filed or pending against the Agency to the knowledge of the Agency's General Counsel.

SUPPLEMENTARY SCHEDULE

PASSAIC REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2014
BUDGETARY BASIS

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014 Adopted Budget	2014 Actual	Variance Excess (Deficit)	2013 Actual
OPERATING REVENUES				
Intergovernmental - City of Passaic Contribution	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
Redevelopers Fees and Contributions	-	6,472	6,472	43,140
Total Operating Revenues	<u>10,000</u>	<u>16,472</u>	<u>6,472</u>	<u>53,140</u>
NON-OPERATING REVENUES				
Interest	-	448	448	406
TOTAL NON-OPERATING REVENUES	<u>-</u>	<u>448</u>	<u>448</u>	<u>406</u>
Total Revenues	<u>10,000</u>	<u>16,920</u>	<u>6,920</u>	<u>53,546</u>
OPERATING APPROPRIATIONS				
Administration:				
Salaries and Wages	35,000	37,349	(2,349)	32,446
Fringe Benefits	5,000	-	5,000	-
Other Expenses	35,000	8,032	26,968	9,086
Total Administration	<u>75,000</u>	<u>45,381</u>	<u>29,619</u>	<u>41,532</u>
Cost of Providing Services				
Other Expenses	-	4,472	(4,472)	3,140
Total Cost of Providing Services	<u>-</u>	<u>4,472</u>	<u>(4,472)</u>	<u>3,140</u>
Total Operating Appropriations	<u>75,000</u>	<u>49,853</u>	<u>25,147</u>	<u>44,672</u>
Budgetary Income	<u>\$ (65,000)</u>	<u>\$ (32,933)</u>	<u>\$ 32,067</u>	<u>\$ 8,874</u>

GOVERNMENT AUDITING STANDARDS REPORT



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members
of the Board of Commissioners
Passaic Redevelopment Agency
Passaic, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Passaic Redevelopment Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents which collectively comprise the Passaic Redevelopment Agency's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

Management of the Passaic Redevelopment Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Passaic Redevelopment Agency's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

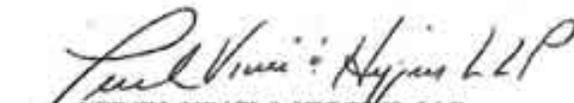
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Passaic Redevelopment Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Passaic Redevelopment Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants

Fair Lawn, New Jersey
December 12, 2014

**ROSTER OF OFFICIALS
AND
GENERAL COMMENTS AND RECOMMENDATIONS**

ROSTER OF OFFICIALS

JUNE 30, 2014

<u>Name</u>	<u>Title</u>
David Spector	Chairman
Peter Castro-Cedeno	Vice-Chairman
Robert Koltai	Commissioner
William Diaz	Commissioner
Chaim Munk	Commissioner
Delis P. Santana	Commissioner
Arthur Soto	Commissioner
Dr. Alex Blanco	Mayor
Ricardo Fernandez	Executive Director
Jose Agosto	Chief Financial Officer

COMMENTS/RECOMMENDATIONS

There are none.

Status of Prior Year's Audit Comments and Recommendations

There were none.

Appreciation

We desire to express our appreciation of the assistance of the Executive Director and Agency staff during the course of our audit.

Respectfully submitted,


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants

**PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012**

ASSETS	<u>2013</u>	<u>2012</u>
Unrestricted Current Assets:		
Cash	\$ 148,092	\$ 151,805
Contract Receivable - Due from Developer	<u>30,000</u>	<u>-</u>
Total Unrestricted Current Assets	<u>178,092</u>	<u>151,805</u>
Restricted Current Assets:		
Cash	<u>2,562</u>	<u>2,552</u>
Total Restricted Current Assets	<u>2,562</u>	<u>2,552</u>
TOTAL ASSETS	<u>180,654</u>	<u>154,357</u>
 LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	6,270	5,717
Escrow Deposits Payable	<u>55,340</u>	<u>38,480</u>
Total Current Liabilities (Payable from Unrestricted Assets)	<u>61,610</u>	<u>44,197</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow Deposits Payable	<u>2,562</u>	<u>2,552</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>2,562</u>	<u>2,552</u>
Total Current Liabilities	<u>64,172</u>	<u>46,749</u>
 NET POSITION		
Unrestricted	<u>116,482</u>	<u>107,608</u>
Total Net Position	<u>\$ 116,482</u>	<u>\$ 107,608</u>